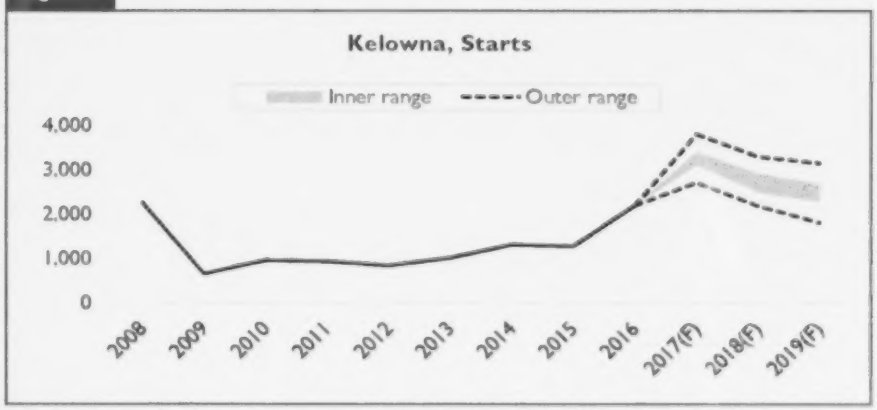
HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

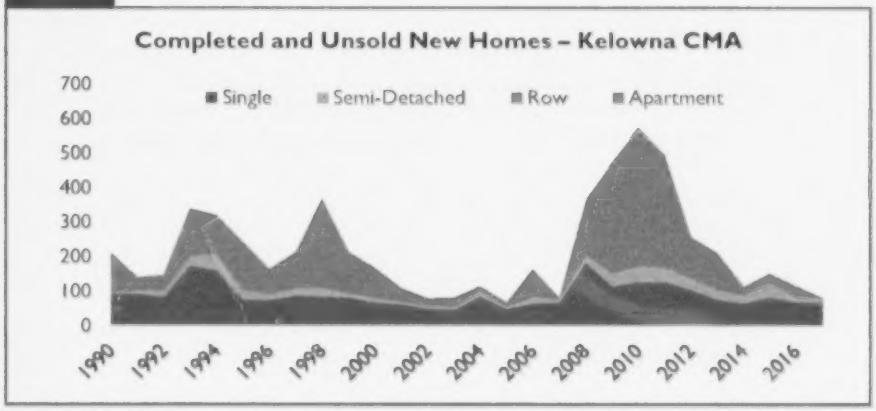
Date Released: Fall 2017

Figure 1



Source: CMHC, (F): Forecast

Figure 2



Source: CMHC Starts and Completions Survey, August 2017 last data point

Highlights[1]

- A significant increase in multiple-family housing starts, along with steady construction of single-detached homes, will result in a higher number of total housing starts in 2017 with the potential for moderation in 2018 and 2019.
- MLS® sales are expected to remain strong, close to 2017 levels, in 2018-19. MLS® average prices are expected to increase significantly in 2017, albeit lower than gains seen in 2016, followed by more modest gains through 2019.
- The anticipated number of new rental units coming onto the market in 2017 and 2018 is expected to result in increases in the apartment vacancy rate, followed by a modest decline in 2019, as population growth continues to provide new demand for rental accommodation.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

CMHC SCHL

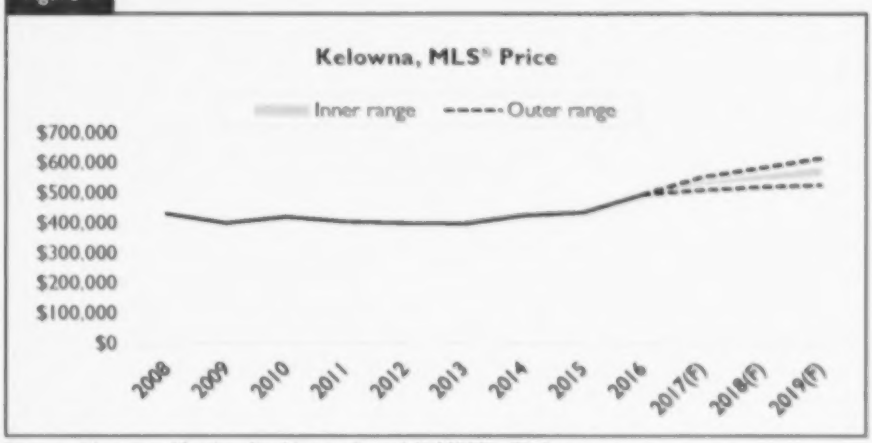
New Home Construction to Increase Again in 2017, Moderate Slightly in 2018-2019

New construction in Kelowna has again been bolstered by positive fundamentals such as migration-fueled population growth, a strong recovery in labour market activity, low mortgage rates and strong resale market activity. Steady population growth, more in line with levels seen in 2015, will add to stable demand for new homes through 2019 (see Figure 1). Over the past two years, migration of young professionals, retirees and seniors to the Kelowna area have contributed to an increase in demand for multi-unit housing options in terms of both rental and condominium tenure housing. Additionally, low rental apartment vacancy rates, as well as low inventories of new apartment condominiums, have contributed to increasing construction of these unit types. In particular, in the first eight months of 2017, a record number of new apartment rentals have gotten underway, in reaction to low vacancy rates and more favourable market fundamentals. Going into 2018-19, it is anticipated that the focus of construction on the multi-unit side will shift to apartment condominiums, particularly in the Downtown Core, as demand for this unit type remains elevated and the number of completed and unabsorbed new units remains historically low (see Figure 2).

Figure 3

Source: Okanagan Mainline Real Estate Board (OMREB), (F): Forecast
MLS® is a registered trademark of the Canadian Real Estate Association. Forecast: CMHC

Figure 4



Source: Okanagan Mainline Real Estate Board (OMREB), (F): Forecast
MLS® is a registered trademark of the Canadian Real Estate Association. Forecast: CMHC

Some Moderation in resale market activity in 2017 to be followed by stability in 2018-19

In the first eight months of 2017, total residential MLS® sales have declined by approximately 15% relative to the same period last year, as population growth in Kelowna has begun to moderate after a very strong 2016. Despite some moderation in 2017, resale market activity remains strong historically and is contributing to greater demand for new homes, as inventories of existing homes on the market have been drawn down significantly over the past two years. However, total residential listings (both new and active) have begun to move upward in the latter half of 2017 which has resulted in demand/supply moving back towards balance according to the sales-to-active-listings ratio. Total residential MLS® sales are anticipated to remain relatively stable and in line with 2017 levels through 2018-19 (see Figure 3). Total residential listings are anticipated to continue to grow slowly over the forecast horizon which will contribute to slower price growth in 2018 and 2019 (see Figure 4).

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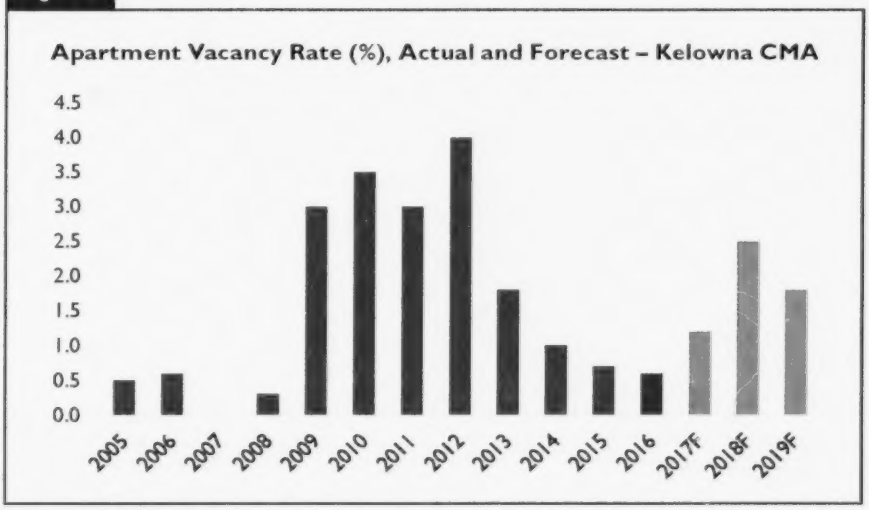
Vacancy rate to increase in 2017-18 before declining in 2019

The apartment vacancy rate in Kelowna is expected to increase in 2017 and 2018 as new supply of apartment rentals enters the market. Elevated demand for rental housing options has spurred builders to increase the supply of new units. Steady population growth is anticipated to keep demand for rental elevated over the forecast horizon which will result in a pullback in the vacancy rate in 2019 (see Figure 5) once the supply of new rental units in Kelowna becomes more stable. Population growth, continued improvement in the local economy and ongoing demand from post-secondary institutions in the Kelowna CMA will be supportive of rental demand through 2019.

Economic outlook

In the first eight months of 2017 Kelowna experienced the strongest employment growth out of any other large centre in BC. Of particular note is the quality of jobs being created, as many of them are full-time positions which is a signal of strong economic activity. Growth in employment has been broad based across both the goods producing and service producing sectors. In particular, job growth in construction, manufacturing, services, public administration and finance, insurance and real estate related occupations have been quite positive in 2017. While housing market activity may be fueling a portion of those job gains, population growth in the region and demographic change will likely contribute to greater demand for both goods and services over time. Employment growth is anticipated to be positive but more modest in 2018-19.

Figure 5



Source: CMHC Rental Market Survey

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Risks to the Outlook:

There are a number of upside and downside risks associated with the outlook including:

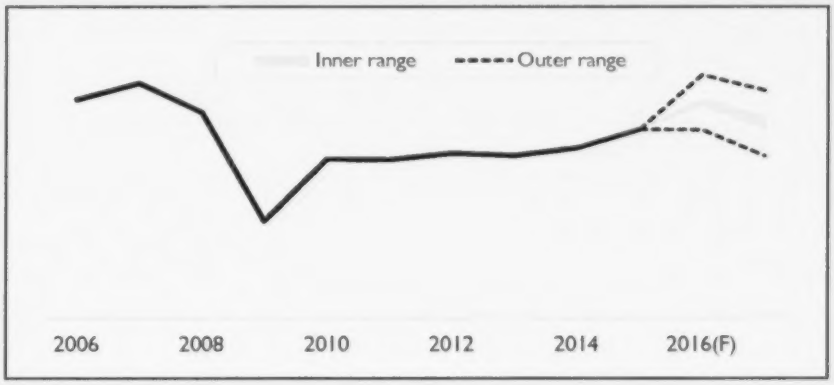
- There is potential for further policy tightening from various levels of government to reduce speculative activity and/or household debt.
- There are both positive and negative risks associated with assumptions about fundamentals, such as the pace of mortgage rate increases (downside risk), population growth and employment growth.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Kelowna CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	695	628	785	850	950	710	890	710	950
Multiples	616	652	1,411	2,000	2,400	1,720	2,080	1,430	1,870
Starts - Total	1,311	1,280	2,196	3,100	3,410	2,490	2,920	2,280	2,690
Resale Market									
MLS® Sales	4,886	5,378	6,693	5,630	5,980	5,330	6,070	5,040	6,160
MLS® Average Price($)	425,996	435,261	494,886	526,800	535,100	543,000	561,000	557,600	584,300
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	1.0	0.7	0.6	1.2	2.5	1.8
Two-bedroom Average Rent (October)($)	980	1,002	1,066	1,120	1,160	1,190
One-bedroom Average Rent (October)($)	788	799	864	910	950	975
Economic Overview						
Population	191,311	195,202	198,304	201,515	204,868	208,238
Annual Employment Level	90,300	92,000	90,900	99,500	101,000	102,000

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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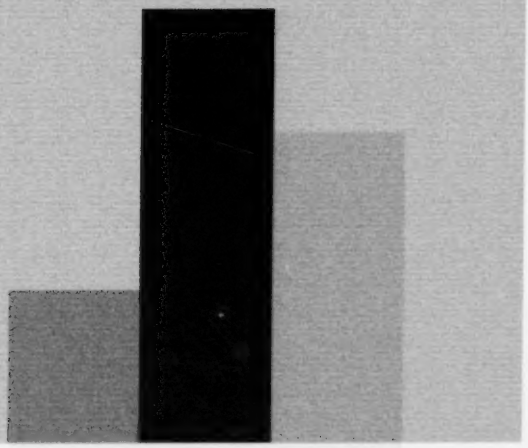

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